

Message Text

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22

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1033

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY ROME

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: EAIR, CA

SUBJ: CIVAIR: IATA NORTH ATLANTIC FARE NEGOTIATIONS

REF: (A) STATE 222007; (B) OTTAWA 3647

1. AIR FARES QUESTIONS IN THE GOC ARE HANDLED BY THE AIR
TRANSPORT COMMITTEE OF THE CANADIAN TRANSPORT COMMISSION,
WHICH HAS A LIMITED STAFF AND TENDS TO CONCENTRATE ITS
RESOURCES ON DOMESTIC QUESTIONS. WHILE ATC APPROVES IATA
AGREEMENTS AND DEVOTES SOME ATTENTION TO THE POSITIONS
CANADIAN CARRIERS TAKE IN IATA DELIBERATIONS, MUCH MORE
INITIATIVE IS LEFT TO CARRIER MANAGEMENT THAN APPEARS
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TO BE THE CASE IN THE U.S. SYSTEM.

2. TCO MET SEPTEMBER 13 WITH J.C. SULLIVAN (CHIEF, FARES, RATES AND SERVICES DIVISION) FOR REVIEW OF NORTH ATLANTIC SITUATION. SULLIVAN, HOWEVER, WAS RELUCTANT TO DISCUSS MATTER IN SPECIFIC TERMS AND SUGGESTED IT WOULD BE APPROPRIATE FOR EMBASSY TO COMMUNICATE ITS QUESTIONS IN WRITING SO THAT THEY MIGHT BE GIVEN FULLEST ATTENTION. (QUESTIONS HAD PREVIOUSLY BEEN READ TO SULLIVAN ON SEPTEMBER 9 SO THAT HE WAS FAMILIAR WITH WHAT WE INTENDED TO RAISE. HE INDICATED HIS SUGGESTION CAME FROM HIS SUPERIORS IN ATC.)

3. WITH RESPECT TO THE SPECIFIC QUESTIONS IN PARA 4, REF (A), THE FOLLOWING APPEARS OF INTEREST:

A) FROM SULLIVAN'S REMARKS, TCO TOOK AWAY IMPRESSION THAT SUPER-APEX FARE HAD NOT BEEN EXAMINED IN DETAIL BY ATC ALTHOUGH ITS BROAD OUTLINES WERE KNOWN. THE QUESTION AS TO WHETHER THE FARE WAS COMPENSATORY OR NOT DID NOT APPEAR OF UNDUE CONCERN TO HIM AND HE MENTIONED THAT FREQUENTLY THE ATC APPROVED FARES WHICH WERE NOT COMPENSATORY SO LONG AS THEY WERE MAKING SOME CONTRIBUTION TO OVERHEADS AND DID NOT BECOME THE BASIS UPON WHICH THE CARRIER INTENDED TO DEVELOP ITS BUSINESS OVER THE LONG TERM.

B) WITH RESPECT TO THE CURRENT AIR CANADA DEFICIT, SULLIVAN MAINTAINED THAT THE AMOUNT WAS RELATIVELY LOW IN COMPARISON WITH TOTAL CARRIER REVENUES AND THAT THERE WAS NO PROBLEM OF THE CARRIER FINANCING IT INTERNALLY FROM CASH FLOW FOR AT LEAST THE TIME BEING. (COMMENT: RESTRUCTURING THE FINANCIAL AND ORGANIZATIONAL ASPECTS OF AIR CANADA IS A CURRENT OBJECTIVE OF THE GOC AND LEGISLATION TO THIS EFFECT IS EXPECTED IN THE NEXT SESSION OF PARLIAMENT).

C) SULLIVAN DESCRIBED THE PURPOSE OF THE SUPER-APEX AS AN ATTEMPT BY AIR CANADA TO ADAPT ITSELF TO THE PECULIARITIES OF THE CANADA-EUROPE MARKET WHICH, HE MAINTAINED, STUDIES HAVE SHOWN TO HAVE HIGHER PERCENTAGE OF VFR (VISITING FRIENDS AND RELATIVES) TRAFFIC THAN DOES LIMITED OFFICIAL USE

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THE U.S. MARKET. THIS TYPE OF TRAFFIC LENDS ITSELF PARTICULARLY WELL TO THE ABC (ADVANCED BOOKING CHARTER) CONCEPT AND SUPER-APEX THUS REPRESENTS AN ATTEMPT BY THE SCHEDULED CARRIERS TO COMPETE IN THE VFR MARKET MORE EFFECTIVELY THAN THE ABC CONCEPT WOULD ALLOW.

D) FINALLY, SULLIVAN SUGGESTED IT WAS DIFFICULT TO DETERMINE WHO SHOULD MOVE FIRST (CHARTERS OR SCHEDULED

CARRIERS) IN INCREASING FARES. BOTH TYPES OF CARRIERS HAVE SIMILAR TYPE COST INCREASES, ESPECILLY LABOR AND FUEL COSTS, AND THUS MIGHT HAVE A COMMON INTEREST IN RECOVERING THEIR EXPENSES.

4. COMMENT: EMBASSY DOES NOT REGARD THIS CONVERSATION WITH SULLIVAN AS SATISFACTORY. HOWEVER, SO FAR AS WE ARE AWARE THERE IS NO OTHER OFFICIAL IN THE GOC WHO FOLLOWS IATA MATTERS AS MUCH AS SULLIVAN DOES. EXTAFF'S INTEREST IN IATA IS NEGLIGIBLE AND MOT GETS INVOLVED ONLY WHEN A CRISIS DEVELOPS. IF DEPARTMENT WISHES ISSUE PURSUED FURTHER WITH GOC, A WRITTEN QUERY WOULD BE APPROPRIATE. THIS COUNLD BE IN THE FORM OF A LETTER TO ATC OF A DIPLOMATIC NOTE TO EXTAFF. SHOULD WRITTEN APPROACH BE DESIRABLE, DEPARTMENT MAY WISH TO PROVIDE TEXT. REFTEL (A) DOES NOT APPEAR ADEQUATE FOR THIS PURPOSE.

5. HOWEVER, SHOULD A SERIOUS SITUATION BE DEVELOPING ON THE NORTH ATLANTIC IN WHICH AIR CANADA'S CONCEPT OF SUPER-APEX IS A SIGNIFICANT ELEMENT, CONSIDERATION SHOULD ALSO BE GIVEN TO REQUESTING CONSULTATIONS WITH GOC IN ADVANCE OF CRISIS. IT MIGHT BE USEFUL FOR USG OFFICIALS TO MEET ACROSS THE TABLE WITH CANADIANS OF A VARIETY OF AGENCIES TO EXPLORE THE BASIC PROBLEM AND ATTEMPT TO INDUCE THE GOC TO PROVIDE DIRECTION TO AIR CANADA'S FURTHER INVOLVEMENT IN IATA.
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